

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Metcalfe County Fiscal Court for fiscal year ended June 30, 2004.

We have issued unqualified opinions, based on our audit on the governmental activities, each major fund, and aggregate remaining fund financial statements of Metcalfe County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$4,616,634 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,973,434 in its governmental funds as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$5,504,870 with \$234,019 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donald M. Butler, II, Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Metcalfe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Metcalfe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Donald M. Butler, II, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metcalfe County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 3, 2005, on our consideration of Metcalfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 3, 2005

METCALFE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Donald M. Butler, II	County Judge/Executive
Jessie Harper	Magistrate
Barry Steele	Magistrate
Dale Rowlett	Magistrate
Greg White	Magistrate

Other Elected Officials:

John P. Blevins	County Attorney
Matthew Gallagher	Jailer
Carol E. England	County Clerk
Mary M. Shive	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry Wilson	Coroner

Appointed Personnel:

Martha C. Richardson	County Treasurer
Lorrie A. Boston	Finance Officer/Occupational Tax Collector

METCALFE COUNTY JUDGE / EXECUTIVE

DON M. BUTLER, II

100 East Stockton Street • Historic Metcalfe County Courthouse, Suite 3 • Post Office Box 149
EDMONTON, KENTUCKY 42129
Phone 270-432-3181 • Fax 270-432-3726

Management's Discussion and Analysis June 30, 2004

The financial management of Metcalfe County, Kentucky offers readers of Metcalfe County's financial statements this narrative overview and analysis of the financial activities of Metcalfe County for the fiscal year ended June 30, 2004.

Financial Highlights.

- Metcalfe County had net assets of \$4,616,634 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,973,434 in the governmental activities as of June 30, 2004. Total debt principal for governmental activities as of June 30, 2004 was \$5,504,870 with \$234,019 due within one year.
- The governmental activities' total net assets increased by \$1,431,758 from the prior year.
- At the close of the current fiscal year, Metcalfe County governmental funds reported current assets of \$2,011,770. Of this amount, \$1,949,907 is available for spending at the government's discretion (unreserved fund balance).
- Metcalfe County's total indebtedness at the close of fiscal year June 30, 2004 was \$5,504,870, of which \$5,270,851 is long-term debt (due after 1 year) and \$234,019 is short-term debt (to be paid within 1 year). Debt additions were \$596,000 and debt reductions were \$294,595 for a net increase of \$301,405 for the year. This increase was due to additional bonds issued for the Metcalfe County Public Properties Corporation.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Metcalfe County's basic financial statements. Metcalfe County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Governmental Funds (Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Metcalfe County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Metcalfe County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Metcalfe County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expense on capital assets in the government-wide financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Metcalfe County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Metcalfe County has no business type activity.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Metcalfe County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Metcalfe County are included as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Metcalfe County maintains (13) thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Ambulance Fund
- Metcalfe County Public Properties Corporation Sinking Fund
- Metcalfe County Public Properties Corporation Construction Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- State Grants Fund
- Disaster and Emergency Services Fund
- Parks and Recreation Fund
- Community Development Block Grant Fund
- Spay and Neuter Fund
- Homeland Security Fund

Metcalfe County adopts an annual appropriated budget. A budgetary comparison schedule has been provided for the General Fund, Road Fund, Jail Fund, and Ambulance Fund to demonstrate compliance with their budgets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Metcalfe County
 Managements Discussion and Analysis
 June 30, 2004
 (Continued)

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Metcalfe County's Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Assets		
Current and Other Assets	\$ 1,535,047	\$ 2,011,770
Capital Assets	<u>6,853,294</u>	<u>8,109,734</u>
Total Assets	8,388,341	10,121,504
Liabilities		
Current and Other Liabilities	294,595	234,019
Long-term Liabilities	<u>4,908,870</u>	<u>5,270,851</u>
Total Liabilities	5,203,465	554,870
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,649,829	2,604,864
Restricted	0	38,336
Unrestricted	<u>1,535,047</u>	<u>1,973,434</u>
Total Net Assets	<u>\$ 3,184,876</u>	<u>\$ 4,616,634</u>

Changes in Net Assets

Governmental Activities. Metcalfe County's net assets increased by \$1,431,758 in fiscal year 2004. Key elements of this are as follows:

- Current and long-term liabilities increased by \$301,405 due to additional debt.
- Capital Assets increased due to the completion of the Metcalfe County Courthouse AOC Building.

Financial Analysis of the County's Funds

As noted earlier, the County has (6) six major, and (7) seven non-major governmental funds.

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview (Continued)

Major Funds:

1. The General Fund is the chief operating fund of Metcalfe County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$1,037,602, while total fund balance was \$1,063,768. The General Fund received \$991,315 in real and personal property, motor vehicle, and other taxes for approximately 82% of the county's general revenues.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$591,840 fund balance at June 30, 2004. The fiscal year 2004 expenditures for the Road Fund were \$1,067,271.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2004 of \$8,012. The Jail Fund received \$31,257 for intergovernmental fees, primarily for jail operational pay.
4. The Ambulance Fund had a fund balance of \$327,149 as of June 30, 2004. The Ambulance Fund received \$165,343 from real and personal property, motor vehicle, and other taxes.
5. The Metcalfe County Public Properties Corporation Sinking Fund had a balance of \$1,207 as of June 30, 2004. These funds are restricted for debt reduction.
6. The Metcalfe County Public Properties Corporation Construction Fund at the end of June 30, 2004 fiscal year, had a fund balance of \$8,534. These funds are restricted for debt reduction.

Non-Major Funds:

7. The Local Government Economic Assistance Fund had a fund balance of \$5,490 as of June 30, 2004.
8. The State Grants Fund had a balance of \$4,965 as of June 30, 2004. During the year, the county received \$322,627 for state grants. Of this amount, \$314,021 was expended for water lines.
9. The Disaster and Emergency Services Fund had a fund balance of \$279 as of June 30, 2004. The county received \$51,810 in intergovernmental revenues and expended \$53,443 for protection to persons and property.
10. The Parks and Recreation Fund had a balance of \$413 as of June 30, 2004.
11. Community Development Block Grant Fund had a fund balance of \$4 as of June 30, 2004. The only receipt and expenditure for this account was \$12,000 for PRIDE.
12. The Spay and Neuter Fund had a balance of \$109 as of June 30, 2004.
13. The Homeland Security Fund received \$21,625 in intergovernmental revenue and expended \$21,625 for protection to persons and property. As of June 30, 2004, the balance was \$0.

Metcalfe County
 Managements Discussion and Analysis
 June 30, 2004
 (Continued)

Budgetary Highlights

Metcalfe County's General Fund budget was amended by \$473,938 and other funds' budgets were amended by \$907,953, during the fiscal year increasing Metcalfe County's original budget by \$1,381,891. Budget amendments were made to various expenditures due to additional bond issuance for the construction fund, expenses in administration, and other expenses.

Capital Assets and Debt Administration

Capital Assets. Metcalfe County's investment in capital assets for its governmental activities as of June 30, 2004, amounted to \$8,109,734 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and current infrastructure additions. Metcalfe County has elected to report infrastructure assets per GASB 34 provisions.

Additional information of the county's capital assets can be found in Note 4 of this report.

Table 2
Metcalfe County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities	
	<u>2003</u>	<u>2004</u>
Infrastructure Assets	\$ 0	\$ 356,371
Land	312,500	321,000
Const. In Progress	442,714	
Buildings & Improvements	1,707,040	6,925,572
Vehicles & Equipment	174,228	177,521
	<u> </u>	<u> </u>
Total Net Capital Assets	<u>\$ 6,853,294</u>	<u>\$ 8,109,734</u>

Long-Term Debt. At the end of the 2004 fiscal year, Metcalfe County had total debt outstanding of \$5,504,870. The bonded debt total is: Revenue Bonds \$5,065,000. In addition, the county has (7) seven financing obligations totaling \$439,870.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- Program cuts at the state level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- Economic factors indicate continued growth for Metcalfe County.
- On November 24, 2004, Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for renovations to the Metcalfe County Nursing Home. The principal was \$1,000,000 at 2.175 interest rate for a period of twenty years, interest paid monthly and principal paid yearly.

Metcalfe County
Managements Discussion and Analysis
June 30, 2004
(Continued)

Requests For Information

This financial report is designed to provide a general overview of Metcalfe County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided herein or requests for additional financial information should be addressed to the Metcalfe County Treasurer, P.O. Box 149, Edmonton, KY 42129.

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METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,011,770
Total Current Assets	<u>2,011,770</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	321,000
Buildings	6,925,572
Other Equipment	329,270
Vehicles and Equipment	177,521
Infrastructure Assets - Net of Depreciation	<u>356,371</u>
Total Noncurrent Assets	<u>8,109,734</u>
Total Assets	<u>10,121,504</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	185,000
Financing Obligations Payable	<u>49,019</u>
Total Current Liabilities	234,019
Noncurrent Liabilities:	
Bonds Payable	4,880,000
Financing Obligations Payable	<u>390,851</u>
Total Noncurrent Liabilities	<u>5,270,851</u>
Total Liabilities	<u>5,504,870</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 2,604,864
Restricted For:	
Capital Projects	8,534
Debt Service	1,207
Grant Projects	28,595
Unrestricted	<u>1,973,434</u>
Total Net Assets	<u>\$ 4,616,634</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:					
General Government	\$ 101,238	\$ 13,939	\$ 541,383	\$	454,084
Protection to Persons and Property	441,602	1,824	97,109		(342,669)
General Health and Sanitation	388,054		326,020		(62,034)
Social Services	12,671				(12,671)
Recreation and Culture	25,100				(25,100)
Roads	583,056		1,298,482		715,426
Debt Service	269,297				(269,297)
Capital Projects	363,690				(363,690)
Total Governmental Activities	<u>\$ 2,184,708</u>	<u>\$ 15,763</u>	<u>\$ 2,262,994</u>	<u>\$</u>	<u>94,049</u>
General Revenues:					
Taxes:					
Real Property Taxes					254,558
Personal Property Taxes					12,702
Motor Vehicle Taxes					41,825
Other Taxes					851,842
Excess Fees					14,952
Unrestricted Investment Earnings					32,603
Miscellaneous Revenues					128,020
Accrued Interest					1,207
Total General Revenues					<u>1,337,709</u>
Change in Net Assets					1,431,758
Net Assets - Beginning (Restated)					<u>3,184,876</u>
Net Assets - Ending				\$	<u>4,616,634</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Ambulance Fund	Metcalf County Public Properties Corporation Sinking Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,063,768	\$ 591,840	\$ 8,012	\$ 327,149	\$ 1,207
Total Assets	<u>\$ 1,063,768</u>	<u>\$ 591,840</u>	<u>\$ 8,012</u>	<u>\$ 327,149</u>	<u>\$ 1,207</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 1,983	\$ 31,233	\$ 36		\$
Grants	24,183				
Unreserved:					
General Fund	1,037,602				
Special Revenue Funds		560,607	7,976	327,149	
Debt Service Fund					1,207
Capital Projects Fund					
Total Fund Balances	<u>\$ 1,063,768</u>	<u>\$ 591,840</u>	<u>\$ 8,012</u>	<u>\$ 327,149</u>	<u>\$ 1,207</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Metcalf County Public Properties Corporation Construction Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 8,534	\$ 11,260	\$ 2,011,770
\$ 8,534	\$ 11,260	\$ 2,011,770
	\$ 19	\$ 33,271
	4,409	28,592
		1,037,602
	6,832	902,564
		1,207
8,534		8,534
\$ 8,534	\$ 11,260	\$ 2,011,770

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,011,770
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	8,917,624
Depreciation	(807,890)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(439,870)
Bonded Debt	(5,065,000)
Net Assets of Governmental Activities	\$ 4,616,634

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Ambulance Fund
REVENUES				
Taxes	\$ 910,452	\$	\$	\$ 165,343
In Lieu Tax Payments	80,863			
Excess Fees	14,952			
Licenses and Permits	2,683			
Intergovernmental	158,143	1,298,482	31,257	1,137
Charges for Services			370	
Miscellaneous	30,916	16,797	987	50
Interest	16,234	6,387		4,727
Total Revenues	<u>1,214,243</u>	<u>1,321,666</u>	<u>32,614</u>	<u>171,257</u>
EXPENDITURES				
General Government	514,617			
Protection to Persons and Property	136,810		152,214	135,059
General Health and Sanitation	53,648			
Social Services	2,000			
Recreation and Culture				
Roads		944,574		
Debt Service	31,356	74,706		
Capital Projects	164,835	8,000		
Administration	224,432	39,991	5,036	
Total Expenditures	<u>1,127,698</u>	<u>1,067,271</u>	<u>157,250</u>	<u>135,059</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>86,545</u>	<u>254,395</u>	<u>(124,636)</u>	<u>36,198</u>
Other Financing Sources (Uses)				
Bond Sale Proceeds				
Discount on Bond				
Financing Obligation Proceeds	196,000			
Transfers from Other Funds	625,576	49,785	129,213	
Transfers to Other Funds	(667,319)	(113,706)		(50)
Total Other Financing Sources (Uses)	<u>154,257</u>	<u>(63,921)</u>	<u>129,213</u>	<u>(50)</u>
Net Change in Fund Balances	240,802	190,474	4,577	36,148
Fund Balances - Beginning (restated)	822,966	401,366	3,435	291,001
Fund Balances - Ending	<u>\$ 1,063,768</u>	<u>\$ 591,840</u>	<u>\$ 8,012</u>	<u>\$ 327,149</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Metcalfe County Public Properties Corporation Sinking Fund	Metcalfe County Public Properties Corporation Construction Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 1,075,795
			80,863
			14,952
			2,683
368,984	29,520	411,613	2,299,136
			370
7	603	59,497	108,857
4,165	2,297		33,810
<u>373,156</u>	<u>32,420</u>	<u>471,110</u>	<u>3,616,466</u>
		13,993	528,610
		75,068	499,151
		333,880	387,528
			2,000
		13,585	13,585
			944,574
386,575	28,045		520,682
	363,855		536,690
7		8,457	277,923
<u>386,582</u>	<u>391,900</u>	<u>444,983</u>	<u>3,710,743</u>
<u>(13,426)</u>	<u>(359,480)</u>	<u>26,127</u>	<u>(94,277)</u>
	400,000		400,000
	(25,000)		(25,000)
			196,000
383,896	745,379	162,040	2,095,889
<u>(369,263)</u>	<u>(760,013)</u>	<u>(185,538)</u>	<u>(2,095,889)</u>
<u>14,633</u>	<u>360,366</u>	<u>(23,498)</u>	<u>570,999</u>
1,207	885	2,629	476,723
	7,648	8,631	1,535,047
<u>\$ 1,207</u>	<u>\$ 8,533</u>	<u>\$ 11,260</u>	<u>\$ 2,011,769</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 476,723
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	5,855,374
Depreciation Expense	(196,220)
Construction in Progress - Transferred to Buildings	(4,402,714)
The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds. These Transactions, However, Have No Effect on Net Assets.	
Financing Obligation	(196,000)
Bond Payments	(400,000)
Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.	
Financing Obligations	109,595
Bond Payments	185,000
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,431,758</u></u>

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Metcalfe County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Metcalfe County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as part of the county's primary government using the blending method.

Metcalfe County Public Properties Corporation

The Metcalfe County Fiscal Court (Fiscal Court) has the authority to appoint a voting majority of the Metcalfe County Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Metcalfe County's financial statements.

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Additional - Metcalfe County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for election of the officials above from the geographic area constituting Metcalfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Metcalfe County does not report any business-type activities.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. Since Metcalfe County does not have any proprietary funds, its major funds are determined using governmental funds only. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail revenues and expenditures of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Ambulance Fund - This fund is used to account for revenues and expenditures for the ambulance service. The primary sources of revenue for this fund are real and personal property, motor vehicle, and other taxes. Expenditures are for protection to persons and property.

Metcalfe County Public Properties Corporation Construction Fund - The primary function of this fund is for construction of the Metcalfe County Courthouse Facility. Revenue came from an additional bond issuance and the expenditures account for the construction of the facility.

Metcalfe County Public Properties Corporation Sinking Fund - The primary function is to account for the accumulation of resources for the payment of general and long-term debt principal and interest. Debt service is provided by rental payments in the amount of the bond payments from Administrative Office of the Courts, Commonwealth of Kentucky.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The government also has the following nonmajor funds: Local Government Economic Assistance Fund, State Grants Fund, Disaster and Emergency Fund, Parks and Recreation Fund, Community Development Block Grant Fund, Spay and Neuter Fund, and Homeland Security Fund, which are presented as Special Revenue Funds. The Special Revenue Funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale in April following the delinquency date.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Under the transition requirements of GASB 34, Metcalfe County was exempted from retroactively applying its capitalization requirements to general infrastructure assets; therefore, only actual cost of additions to infrastructure during fiscal year 2004 has been capitalized. Infrastructure capitalization will also apply for all subsequent years.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Vehicles	\$ 1,000	3-25
Infrastructure	\$ 10,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Metcalfe County Public Properties Corporation Sinking Fund. The Metcalfe County Public Properties Corporation Sinking Fund consists of funds related to the debt service requirements of a bond issuance. The Governor's Office of Local Development does not require these funds to be budgeted.

I. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Metcalfe County Fiscal Court: Edmonton Metcalfe County Industrial Development Authority and Metcalfe Health Services, Inc.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Metcalfe County Fiscal Court.

Ambulance Service Corporation, Inc.

The Metcalfe County Fiscal Court has retained an ongoing financial responsibility for the Ambulance Service Corporation, Inc. (Ambulance Service). The Ambulance Service is a joint venture among Barren County Fiscal Court, City of Edmonton, City of Glasgow, TJ Sampson Community Hospital, and Metcalfe County Fiscal Court to provide emergency medical care service and transportation to the citizens of Barren County, City of Glasgow, and Metcalfe County. Each participating entity is responsible for a proportionate part of any deficit (10 percent of deficit for each board member.) The Fiscal Court has two board members; therefore, the Fiscal Court is responsible for 20 percent of any deficits of the Ambulance Service.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Ventures (Continued)

Barren/Metcalfe Emergency Communications Center

The Metcalfe County Fiscal Court, Barren County Fiscal Court, City of Glasgow, City of Cave City, City of Park City, City of Hiseville, and City of Edmonton entered into an interlocal agreement to provide enhanced 911 services to the citizens of Metcalfe County and Barren County. The interlocal agreement established Barren/Metcalfe Emergency Communications Center (BMECC). Under the agreement, the Metcalfe County Fiscal Court is required to establish and collect 911 fees. These 911 fees are to be remitted to BMECC.

Edmonton/Metcalfe County 911 Board

The Metcalfe County Fiscal Court (Fiscal Court) and City of Edmonton entered into an interlocal agreement to provide 911 services to the citizens of Metcalfe County. On September 14, 1993, the Fiscal Court voted to "share 50/50 the cost of police dispatching" with the City of Edmonton.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government as beneficiary/obligee on the bond.

Note 3. Operating Leases

The fiscal court entered into various lease agreements for vehicles to be used by various county departments. Payments on operating leases are included in debt service on the statement of activities. The total expense related to these leases was \$2,941 for the fiscal year ended June 30, 2004. The future minimum lease payments for these leases are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2005	\$ 6,964
2006	5,848
2007	5,848
2008	3,403
Total Minimum Lease Payments	<u>\$ 22,063</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 312,500	\$ 8,500	\$	\$ 321,000
Construction In Progress	4,402,714		(4,402,714)	
Total Capital Assets Not Being Depreciated	4,715,214	8,500	(4,402,714)	321,000
Capital Assets, Being Depreciated:				
Buildings	2,019,466	5,303,077		7,322,543
Other Equipment	450,145	129,272		579,417
Vehicles and Equipment	280,139	26,885		307,024
Infrastructure		387,640		387,640
Total Capital Assets Being Depreciated	2,749,750	5,846,874		8,596,624
Less Accumulated Depreciation for:				
Buildings	(312,426)	(84,545)		(396,971)
Other Equipment	(193,333)	(56,814)		(250,147)
Vehicles and Equipment	(105,911)	(23,592)		(129,503)
Infrastructure		(31,269)		(31,269)
Total Accumulated Depreciation	(611,670)	(196,220)		(807,890)
Total Capital Assets, Being Depreciated, Net	2,138,080	5,650,654		7,788,734
Governmental Activities Capital Assets, Net	\$ 6,853,294	\$ 5,659,154	\$ (4,402,714)	\$ 8,109,734

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental Activities:

General Government	76,954
Protection to Persons and Property	13,935
General Health and Sanitation	526
Social Services	10,671
Recreation and Culture	11,515
Roads, Including Depreciation of General Infrastructure Assets	82,619
Total Depreciation Expense - Governmental Activities	<u>\$ 196,220</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Short-term Debt

In July 2003, Metcalfe County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$422,800, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$124.

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Kentucky Advance Revenue Program	\$ 0	\$ 422,800	\$ 422,800	\$ 0
Governmental Activities				
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 422,800</u>	<u>\$ 422,800</u>	<u>\$ 0</u>

Note 6. Long-term Debt

A. First Mortgage Revenue Bond, Series 2001 - Metcalfe County Public Properties Corporation Sinking Fund

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds (Bonds), Series 2001, on October 1, 2001, for the purposes of acquisition, construction, installation, and equipping of the Metcalfe County Courthouse Facility. On October 9, 2001, \$4,850,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$96,950, net bond proceeds were \$4,753,050. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 170,000	\$ 199,034
2006	175,000	193,721
2007	180,000	188,252
2008	190,000	182,042
2009	195,000	175,108
2010-2014	1,100,000	754,220
2015-2019	1,350,000	502,085
2020-2023	<u>1,325,000</u>	<u>159,330</u>
Totals	<u>\$ 4,685,000</u>	<u>2,353,792</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2001 B – Metcalfe County Public Properties Corporation Sinking Fund (Continued)

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds, Series 2001 B, on August 1, 2003 for the purposes of financing additional costs of constructing and equipping a new courthouse facility, capitalizing interest, and paying the costs of issuance on the Series B Bonds. On August 1, 2003, \$400,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$7,680, net bond proceeds were \$392,320. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 15,000	\$ 15,450
2006	15,000	14,970
2007	15,000	14,490
2008	15,000	14,010
2009	15,000	13,530
2010-2014	90,000	59,970
2015-2019	110,000	40,020
2020-2023	105,000	12,420
Totals	<u>\$ 380,000</u>	<u>\$ 184,860</u>

C. Road Grader

On January 11, 2000, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of a road grader. The principal was \$66,355 at various interest rates for a period of five years, interest and principal paid monthly. Principal outstanding as of June 30, 2004, was \$8,424. Principal and interest payment requirements remaining excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 8,424	\$ 84

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

D. Enrichment Center

On March 2, 2002, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the Metcalfe County Enrichment Center Project. The principal was \$250,000 at various interest rates for a period of twenty years, interest and principal paid monthly. Principal outstanding as of June 30, 2004, was \$229,152. Principal and interest payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 10,072	\$ 6,427
2006	10,362	6,140
2007	10,660	5,841
2008	10,967	5,544
2009	11,283	5,229
2010-2014	61,480	21,134
2015-2019	70,853	11,860
2020-2023	43,475	2,080
Totals	<u>229,152</u>	<u>\$ 64,255</u>

E. Maintenance Garage

On August 31, 2002 the Metcalfe County Fiscal Court entered into a lease-purchase agreement with the Commonwealth of Kentucky. The lease-purchase agreement was for the purchase of the property of the Old State Maintenance Garage. The principal was \$40,000 interest free for a period of five years, paid annually. Lease payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 8,000	
2006	8,000	
Totals	<u>\$ 16,000</u>	<u>\$ 0</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

F. Enrichment Center - Land

On February 13, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of land and building for the Metcalfe County Enrichment Center Project. The principal was \$162,000 at various interest rates for a period of fifteen years, principal paid yearly and interest paid monthly. Principal outstanding as of June 30, 2004, was \$162,000. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 5,480	\$ 7,318
2006	5,695	7,073
2007	5,919	6,805
2008	6,152	6,538
2009	6,393	6,228
2010-2014	35,939	26,443
2015-2019	43,579	17,507
2020-2024	52,843	5,838
Totals	<u>\$ 162,000</u>	<u>\$ 83,750</u>

G. Property Valuation Administrator

On October 22, 2003, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of a GIS System for the Property Valuation Administrator Office. The principal was \$9,700 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2004, was \$6,931. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 4,862	\$ 141
2006	2,069	17
Totals	<u>\$ 6,931</u>	<u>\$ 158</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

H. Road Department - Mapping Software

On October 22, 2003, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of a GeoSync Mapping Software and Geo XT GPS Equipment Software. The principal was \$13,020 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2004, was \$9,303. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 6,527	\$ 190
2006	2,776	22
Totals	<u>\$ 9,303</u>	<u>\$ 212</u>

I. Road Department - Equipment

On October 22, 2003, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of a GIS Date Mapping System. The principal was \$11,280 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2004, was \$8,060. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 5,654	\$ 164
2006	2,406	19
Totals	<u>\$ 8,060</u>	<u>\$ 183</u>

J. Changes In Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,850,000	\$ 400,000	\$ 185,000	\$ 5,065,000	\$ 185,000
Financing Obligations	353,465	196,000	109,595	439,870	49,019
Governmental Activities Long-term Liabilities	<u>\$ 5,203,465</u>	<u>\$ 596,000</u>	<u>\$ 294,595</u>	<u>\$ 5,504,870</u>	<u>\$ 234,019</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$13,951 in interest on financing obligations and \$214,710 in interest on bonds.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2004, Metcalfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities, as well as, a prior period adjustment to the General Fund beginning fund balance, is as follows:

	Governmental Activities	General Fund
Beginning Balance	\$ 1,534,977	\$ 822,896
Capital Assets (net of accumulated depreciation) previously omitted	6,853,294	
Voided Checks	70	70
Long-Term Debt previously omitted	(5,203,465)	
Total Restated Beginning Balance	<u>\$ 3,184,876</u>	<u>\$ 822,966</u>

Note 11. Related Party Transactions

- A. The county rented storage space from County Attorney John Blevins for \$200 per month. During fiscal year ended June 30, 2004, payments for storage space totaled \$2,400.
- B. The county paid Jailer Mathew Gallagher \$144 for vehicle repair work during fiscal year ended June 30, 2004.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 12. Subsequent Event

On November 24, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the renovations to the Metcalfe County Nursing Home. The principal was \$1,000,000 at 2.175 interest rate for a period of twenty years, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$	\$ 17,971
2006	35,000	29,000
2007	40,000	27,811
2008	40,000	26,663
2009	40,000	25,453
2010-2014	220,000	108,083
2015-2019	260,000	72,187
2020-2025	365,000	30,573
Totals	<u>\$ 1,000,000</u>	<u>\$ 337,741</u>

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 744,650	\$ 911,545	\$ 910,452	\$ (1,093)
In Lieu Tax Payments	63,500	80,863	80,863	
Excess Fees	17,000	17,000	14,952	(2,048)
Licenses and Permits	2,300	2,963	2,683	(280)
Intergovernmental Revenue	183,900	188,488	158,143	(30,345)
Miscellaneous	17,165	34,508	30,916	(3,592)
Interest	14,000	15,033	16,234	1,201
Total Revenues	1,042,515	1,250,400	1,214,243	(36,157)
EXPENDITURES				
General Government	470,244	512,432	514,617	(2,185)
Protection to Persons and Property	141,965	142,090	136,810	5,280
General Health and Sanitation	53,748	53,748	53,648	100
Social Services	2,100	2,100	2,000	100
Debt Service	319,440	319,440	31,356	288,084
Capital Projects	50,000	214,835	164,835	50,000
Administration	647,142	913,932	224,432	689,499
Total Expenditures	1,684,639	2,158,577	1,127,698	1,030,879
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(642,124)	(908,177)	86,545	994,722
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	16,000	162,000	196,000	34,000
Transfers from Other Funds		609,408	625,576	16,168
Transfers to Other Funds	(123,876)	(667,645)	(667,319)	326
Total Other Financing Sources (Uses)	(107,876)	103,763	154,257	50,494
Net Changes in Fund Balance	(750,000)	(804,414)	240,802	1,045,216
Fund Balance - Beginning (restated)	750,000	804,414	822,966	18,552
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,063,768	\$ 1,063,768

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 981,326	\$ 1,322,707	\$ 1,298,482	\$ (24,225)
Miscellaneous	1,200	16,761	16,797	36
Interest	10,000	10,000	6,387	(3,613)
Total Revenues	992,526	1,349,468	1,321,666	(27,802)
EXPENDITURES				
Roads	1,043,591	1,141,139	944,574	196,565
Debt Service	83,481	83,481	74,706	8,775
Capital Projects	8,000	8,000	8,000	
Administration	257,454	459,554	39,991	419,563
Total Expenditures	1,392,526	1,692,174	1,067,271	624,903
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(400,000)	(342,706)	254,395	597,101
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			49,785	49,785
Transfers To Other Funds		(58,660)	(113,706)	(55,046)
Total Other Financing Sources (Uses)		(58,660)	(63,921)	(5,261)
Net Changes in Fund Balance	(400,000)	(401,366)	190,474	591,840
Fund Balance - Beginning	400,000	401,366	401,366	
Fund Balance - Ending	\$ 0	\$ 0	\$ 591,840	\$ 591,840

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 29,500	\$ 33,332	\$ 31,257	\$ (2,075)
Charges for Services		5,000	370	(4,630)
Miscellaneous		987	987	
Total Revenues	29,500	39,319	32,614	(6,705)
EXPENDITURES				
Protection to Persons and Property	120,180	156,360	152,214	4,148
Administration	10,660	15,607	5,036	10,571
Total Expenditures	130,840	171,967	157,250	14,717
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(101,340)	(132,648)	(124,636)	8,012
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	96,340	129,213	129,213	0
Total Other Financing Sources (Uses)	96,340	129,213	129,213	0
Net Changes in Fund Balance	(5,000)	(3,435)	4,577	8,012
Fund Balance - Beginning	5,000	3,435	3,435	
Fund Balance - Ending	\$ 0	\$ 0	\$ 8,012	\$ 8,012

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 159,000	\$ 166,131	\$ 165,343	\$ (788)
Intergovernmental Revenue	16,100	16,420	1,137	(15,283)
Miscellaneous		50	50	
Interest	4,900	5,584	4,727	(857)
Total Revenues	180,000	188,185	171,257	(16,928)
EXPENDITURES				
Protection to Persons and Property	180,000	180,000	135,059	44,941
Administration	268,553	299,186		299,186
Total Expenditures	448,553	479,186	135,059	344,127
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(268,553)	(291,001)	36,198	327,199
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(50)	(50)
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ (50)	\$ (50)
Net Changes in Fund Balance	(268,553)	(291,001)	36,148	327,149
Fund Balances - Beginning	268,553	291,001	291,001	
Fund Balances - Ending	\$ 0	\$ 0	\$ 327,149	\$ 327,149

METCALFE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

Special Revenue Funds				
	Local Government Economic Assistance Fund	State Grants Fund	Disaster and Emergency Services Fund	Parks and Recreation Fund
ASSETS				
Cash and Cash Equivalents	\$ 5,490	\$ 4,965	\$ 279	\$ 413
Total Assets	<u>\$ 5,490</u>	<u>\$ 4,965</u>	<u>\$ 279</u>	<u>\$ 413</u>
FUND BALANCES				
Reserved For:				
Encumbrances	\$	\$	\$	\$ 19
Grants		4,409		
Unreserved:				
Special Revenue Funds	<u>5,490</u>	<u>556</u>	<u>279</u>	<u>394</u>
Total Fund Balances	<u>\$ 5,490</u>	<u>\$ 4,965</u>	<u>\$ 279</u>	<u>\$ 413</u>

METCALFE COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

<u>Special Revenue Funds</u>		
Community Development Block Grant Fund	Spay and Neuter Fund	Total Non-Major Governmental Funds
<u>\$ 4</u>	<u>\$ 109</u>	<u>\$ 11,260</u>
<u><u>\$ 4</u></u>	<u><u>\$ 109</u></u>	<u><u>\$ 11,260</u></u>
\$	\$	\$ 19 4,409
<u>4</u>	<u>109</u>	<u>6,832</u>
<u><u>\$ 4</u></u>	<u><u>\$ 109</u></u>	<u><u>\$ 11,260</u></u>

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METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	<u>Special Revenue Funds</u>			
	Local Government Economic Assistance Fund	State Grants Fund	Disaster and Emergency Services Fund	Parks and Recreation Fund
REVENUES				
Intergovernmental	\$ 3,551	\$ 322,627	\$ 51,810	\$
Miscellaneous Revenues	33	3,200		54,763
Total Revenues	<u>3,584</u>	<u>325,827</u>	<u>51,810</u>	<u>54,763</u>
EXPENDITURES				
General Government	10,352	3,641		
Protection to Persons and Property			53,443	
General Health and Sanitation		317,221		
Recreation and Culture				13,585
Administration	1,166		7,168	
Total Expenditures	<u>11,518</u>	<u>320,862</u>	<u>60,611</u>	<u>13,585</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(7,934)</u>	<u>4,965</u>	<u>(8,801)</u>	<u>41,178</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	9,804	121,753	20,233	8,550
Transfers to Other Funds		(121,753)	(14,000)	(49,785)
Total Other Financing Sources (Uses)	<u>9,804</u>	<u></u>	<u>6,233</u>	<u>(41,235)</u>
Net Change in Fund Balances	1,870	4,965	(2,568)	(57)
Fund Balances - Beginning	3,620		2,847	470
Fund Balances - Ending	<u>\$ 5,490</u>	<u>\$ 4,965</u>	<u>\$ 279</u>	<u>\$ 413</u>

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

<u>Special Revenue Funds</u>			
Community Development Block Grant Fund	Spay and Neuter Fund	Homeland Security Fund	Total Non-Major Governmental Funds
\$ 12,000	\$	\$ 21,625	\$ 411,613
	1,501		59,497
12,000	1,501	21,625	471,110
			13,993
		21,625	75,068
12,000	4,659		333,880
			13,585
	123		8,457
12,000	4,782	21,625	444,983
	(3,281)		26,127
	1,700		162,040
			(185,538)
	1,700		(23,498)
	(1,581)		2,629
4	1,690		8,631
\$ 4	\$ 109	\$ 0	\$ 11,260

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald M. Butler, II, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalfe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metcalfe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Metcalfe County Fiscal Court, management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 3, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

METCALFE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

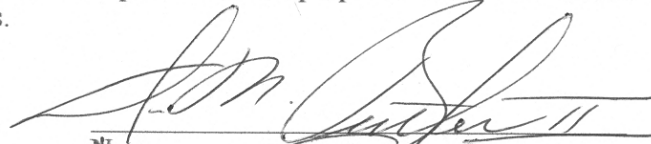
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

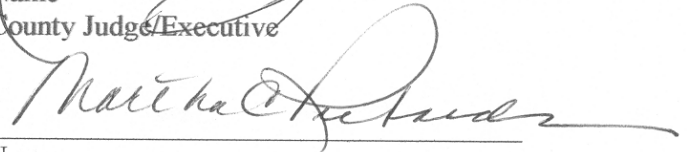
METCALFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Metcalfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer